

# EXHIBIT 12

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MASSACHUSETTS  
CENTRAL DIVISION

Southern Sky Air & Tours, )  
LLC, d/b/a Direct Air, )

Debtor, )

Case No.: 12-40944-MSH  
Chapter 7

**COPY**

**THE RULE 2004 EXAMINATION OF  
STANLEY MARSHALL ELLISON**

Wednesday, November 6, 2013  
10:08 a.m. – 12:08 p.m.

The Rule 2004 Examination of STANLEY MARSHALL ELLISON, taken on behalf of the Joseph H. Baldiga, Chapter 7 Trustee, at the law offices of Boyd Goldfinch Law Firm, LLC, located at 11019 Tournament Boulevard, Murrells Inlet, South Carolina, on Wednesday, November 6, 2013.

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1 Beach would be a good, a good marketing area, a  
2 good way to start, although it is seasonal, and  
3 at some point we decided that because it is  
4 seasonal, we had to do something with the  
5 aircraft in the offseason, so that's when decided  
6 to fly to, to Florida, to offset, because they're  
7 opposite seasons.

8 Q: And were you involved in any decisions about what  
9 type of entity Direct Air would be, incorporated  
10 and then subsequently and LLC?

11 A: Not really, no.

12 Q: Did you have any understanding of why the company  
13 changed entity status?

14 A: That, that was, I think, you know, that was made  
15 primarily by Bob, Bob Keilman. He, he was the  
16 CFO, and he had a much better, you know,  
17 understanding and experience of all of that, so  
18 ---

19 Q: What was your understanding of Bob Keilman's  
20 level of involvement and his job at Direct Air?

21 A: Well, Bob was, as I said, his official title was  
22 CFO. He, he had been a former vice-president of  
23 a bank, the Bank of New York, I believe it was,  
24 he was a CPA, and he was the primary investor  
25 when, when we formed the company.

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1 Q: Was he an active participant in the day-to-day  
2 running of the business?

3 A: Well, yeah. I mean, Bob, Bob was, was involved  
4 in, in all aspects of the business. He commuted  
5 back and forth from his home in New Jersey, but  
6 he was aware of, you know, what, what the company  
7 did. He was intimately aware of everything, I  
8 would say.

9 Q: What do you understand his role to be with  
10 respect to preparing company financials?

11 A: That, that was, that was the biggest part of his  
12 responsibility, would have been on the financial  
13 side, because that was his background and  
14 expertise, but I think that there were a lot of  
15 things that, that spilled over that Bob was  
16 involved with. He, he wanted to be aware of  
17 everything, you know. I talked to him many times  
18 about the things that, that I was doing, and, and  
19 so he was, he's, he's the type of person, he has  
20 that type of personality. He is a communicator,  
21 and it's, it's just a matter of sitting down and,  
22 and talking about it and letting him know. I  
23 would say that Bob, you know, he just had, he had  
24 a vested interest in the company, and so he  
25 wanted to make sure that we were, we were all

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1 growing in the same direction, I'll say.

2 Q: Was he part and parcel of all the business  
3 decisions?

4 A: Yes, I would say so.

5 Q: So he was more than just an investor?

6 A: Oh, yeah, yeah.

7 Q: Are you aware of loans that Mr. Keilman made to  
8 the company?

9 A: I know that there was an initial loan or  
10 investment when the company started, and then  
11 after the company was in business for, you know,  
12 periods of time, that he was, he, he continued to  
13 provide loans for the operation of the company,  
14 yes.

15 Q: I'm showing you what we've previously marked as  
16 Exhibit 17 in Kay Ellison's deposition. I'd ask  
17 you to take a look. It's a four-page document.

18 A: (Pauses while reviewing document.) Uh-huh  
19 (affirmative response).

20 Q: And I would represent to you that the first two  
21 pages are single sheets. The last two pages were  
22 in Direct Air's files, stapled together. With  
23 respect to the first page, entitled, "Promissory  
24 Note," is that your signature above the line  
25 saying, "Stanley Marshall Ellison"?

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- 1 was a profit in any given month, but that would  
2 be, that would be less than probably most months.
- 3 Q: Can you recall any instance in which financials  
4 were changed from a loss to show a positive?
- 5 A: Changed?
- 6 Q: Yes, changed.
- 7 A: I wouldn't know about that.
- 8 Q: You are aware at some point that Direct Air  
9 experienced a shortfall in its escrow account?
- 10 A: Yes.
- 11 Q: Can you explain to me your understanding of the  
12 purpose and the operation of the escrow account?
- 13 A: We, as a group, knew that there was a shortfall  
14 as we went along. We didn't know, at least I  
15 didn't know the reason for it. We just knew that  
16 there was, we felt like that there, we were  
17 short, and we wanted to try to understand why so  
18 that we could try to correct it.
- 19 Q: And can you explain to me your understanding of  
20 the purpose and operation of the escrow account?
- 21 A: The purpose and the operation? Probably not, I  
22 mean, it wasn't an area that I was involved with,  
23 and I wouldn't really be able to say, you know,  
24 what that was.
- 25 Q: Did you understand that there were Department of

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1 Transportation regulations that required charter  
2 airlines to escrow passenger funds until flights  
3 were flown?

4 A: Yes.

5 Q: And you understood that Direct Air had its escrow  
6 account for that purpose at Valley National Bank?

7 A: Yes.

8 Q: Did you understand that after flights were  
9 completed, Direct Air would send a request for  
10 release of funds to Valley National Bank to  
11 release money to its operating accounts?

12 A: Uh-huh (affirmative response). That's how it  
13 works.

14 Q: Were you ever involved in the process of  
15 requesting a release of funds for Direct Air?

16 A: No.

17 Q: Do you have any knowledge of how that process  
18 works?

19 A: No.

20 Q: Do you understand that the process of obtaining  
21 money from the escrow account relied upon  
22 financial figures from Radixx?

23 A: From Radixx, yes.

24 Q: And you understood at the same time that Radixx  
25 financial information had irregularities in it?

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- 1 A: Well, I understood it, as I said, from a  
2 indirect, you know, like I said, I wasn't, that  
3 wasn't an area that I worked with or I was  
4 responsible for. So I just knew that there were  
5 issues with the reservation system with Radixx.  
6 Q: Including financial issues about the numbers that  
7 Radixx was reporting; is that correct?  
8 A: Yeah. As I said, the reports changed. It was a  
9 change over time. When we started out with  
10 Radixx, up until, you know, in the five or six  
11 years, it was a constant change, and in that  
12 change, there were, there were issues that, that  
13 came about where there were, reports didn't,  
14 didn't match.  
15 Q: Well, I'm not questioning what type of reports  
16 they had. I'm questioning whether you understood  
17 that there were financial irregularities and  
18 inaccuracies in the numbers.  
19 A: As I said earlier, from a broad statement from;  
20 from, from my, where I was, my perspective, I  
21 heard, you know, Bob, and I heard that there were  
22 inconsistencies.  
23 Q: When was the first time you learned that there  
24 was a shortfall in the escrow account?  
25 A: I think that when, when we -- Our, our goal was

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1 to eventually merge with another airline. We  
2 had, we had passengers and another airline would  
3 have the equipment. Because we were operating,  
4 we didn't, we didn't own our own equipment, it's  
5 kind of like when you, when you rent a car, it  
6 costs you a lot more to, to rent a car than it  
7 does if you owned the car. We were renting  
8 aircraft, and so our operating costs were  
9 significantly higher than our competition's, and  
10 so it was our goal to merge with another carrier  
11 that could, we could put our passengers with  
12 their equipment.

13 And to go back to your question, I know,  
14 I'm -- One of those, one of those carriers, one  
15 of those airlines was Vision, and we did, we, we  
16 were required to put together the due diligence  
17 and, and, for that possibility of merging with  
18 Vision. And when you say, "When was that?" I  
19 mean, that would've been, I mean, I'm just  
20 guessing, but could've been 2000 -- See, we  
21 started, actually started flying, see, six,  
22 seven, eight, nine, ten, -- We started flying in  
23 2007, so probably 2009, 2010. I'm, I'm, I'm  
24 trying to guess, pull a year out, but I can't  
25 remember exactly.

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1 money in and out of the escrow account. So is it  
2 your understanding that a shortfall meant that  
3 there was too much passenger funds taken out of  
4 the escrow account than there should have been?  
5 A: That's what a shortfall is. As I said, we didn't  
6 ---  
7 Q: And so that's your understanding of what the  
8 shortfall here was?  
9 A: Well, we didn't know. As I said, we didn't know  
10 exactly how the shortfall occurred. We, we  
11 wanted to get a better handle on that and  
12 understand it, but that would've been in, you  
13 know, a different area than, than I worked in.  
14 Q: So would it be fair to say that you're not aware  
15 of any practices or checks and balances or  
16 procedures put into place after you learned about  
17 the shortfall to specifically control the money  
18 going in or out of the escrow account?  
19 A: I don't ---  
20 MR. BOYD: OBJECTION TO FORM.  
21 A: I wouldn't, I wouldn't know. I mean, there  
22 could've been things that were done that, that  
23 maybe I don't know about.  
24 Q: Okay. And that's a sufficient answer. Thank  
25 you. Did you ever have any dealings with the

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- 1 Q: Initially.
- 2 A: Yes.
- 3 Q: And you subsequently learned from Jeff Conry that
- 4 Sky King did not have the financial ability to
- 5 consummate the deal and that they had intended to
- 6 terminate all the Direct Air employees and
- 7 personnel when they completed the acquisition?
- 8 A: Well, yeah. That -- He was like a double agent.
- 9 I mean, he ---
- 10 Q: And did you understand those things because Mr.
- 11 Conry told them to you or were they relayed by
- 12 another person?
- 13 A: Probably, probably relayed. I didn't have a good
- 14 -- I wouldn't say I had a bad relationship with
- 15 the Avondale group, but I wasn't, I just, I just
- 16 didn't feel good about it.
- 17 Q: And because of Mr. Conry's representations
- 18 regarding Sky King, their financial inability to
- 19 consummate the deal and their plans to terminate
- 20 everybody when they came, is that the reason that
- 21 you ultimately decided to go with the Avondale
- 22 offer?
- 23 A: I think it would be all of the above, including
- 24 we were told by the Avondale group that they had
- 25 a deal with USA3000 and with Airbuses, and a

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- 1 fleet of Airbuses. I mean, there were pro formas  
2 that were, that were run by, by the operations  
3 and financial side of the company and ---  
4 Q: And but for those representations by Mr. Conry,  
5 you would have closed the Sky King deal; is that  
6 correct?  
7 A: We, we would have closed -- Oh, you mean not gone  
8 with the Sky King or, or would have gone with  
9 Avondale?  
10 Q: But for Mr. Conry's representations, so if he had  
11 not made those representations, you would have  
12 closed the deal with Sky King; is that correct?  
13 A: Yes, I believe so.  
14 Q: Did you have any involvement in the due diligence  
15 process by Avondale?  
16 A: No, ma'am.  
17 Q: I'm showing you what's been pre-marked as Exhibit  
18 13 in Judy Tull's deposition. Do you recall  
19 seeing that document before?  
20 A: No.  
21 Q: No?  
22 A: No, ma'am.  
23 Q: Are you aware that this document was provided to  
24 Avondale as part of the due diligence process, as  
25 well as attached to the asset purchase agreement

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1 daily financial reports from Valley National  
2 Bank.

3 A: No, ma'am.

4 MS. MURPHY: I'D LIKE TO TAKE A FIVE-  
5 MINUTE BREAK.

6 \*\*\*\*\*OFF THE RECORD\*\*\*\*\*

7 (ON THE RECORD)

8 MS. MURPHY CONTINUES:

9 Q: Getting back to some of the questions just before  
10 the break which was about the acquisition. Can  
11 you tell how your job changed before and after  
12 the acquisition?

13 A: Well, before the acquisition, I had a number of  
14 markets that I was responsible for, and for the  
15 most part, the sales were good. The sales were  
16 in line with what they should have been. But the  
17 thing about marketing is it's not something that,  
18 I mean, every, every day or every month, you  
19 know, there's always seats to fill, always, you  
20 know, planes that, that we're obligated for, and  
21 so you could, you could, you could do a good job  
22 for a particular month, but then you have to  
23 start all over again and do it, and so you always  
24 had that pressure. It's like there's always a  
25 weight on you.

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1 And so once, once the, the company was  
2 under the acquisition, I still, I still did that  
3 for the most part, but there was a lot of, I  
4 mean, for instance, it made it more difficult  
5 because there was no yield management. What the,  
6 what the new company did was they went in and  
7 they set up a template. They said that, "We want  
8 to make, we want our net profit to be higher on  
9 each, each flight, each seat," and so they set  
10 the, the fares at a particular level and, where  
11 before, part, to, to, to keep the sales going, I  
12 did, would, would work with the yield management  
13 side to say, "This is, we need to adjust the  
14 fares to have sales," but they made the sales so  
15 high that -- the seats, I mean, so high, that the  
16 sales really dropped off.

17 Q: Who is yield management, who handled that?

18 A: Really, the, the, the company, the company did as  
19 a whole, but I would look at it from the  
20 marketing side, and, and because we would set it  
21 up, each flight would for the most part be the  
22 same based on what we thought would, would be  
23 positive for the company and with, with some ---

24 Q: Positive cash flow or ---

25 A: Positive sales, yes. And if there needed to be

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1 to generate income and revenue for the company to  
2 use in its daily business operations.  
3 MR. BOYD: OBJECTION TO FORM.  
4 A: I mean, it, it was, it was, it was a membership.  
5 It was a sale. So that was revenue for the  
6 company.  
7 Q: It didn't actually cost \$60 per ticket to  
8 administer the Family Ties program, I mean, this  
9 was just a revenue generator, like any other  
10 service fee, correct?  
11 A: I guess so.  
12 MR. BOYD: OBJECTION TO FORM. YOU CAN  
13 ANSWER.  
14 A: I mean, ---  
15 Q: Well, let me ask another question about the  
16 program. Was it intended that people would use  
17 every single certificate or was there an expected  
18 rate of expired certificates that would not have  
19 to be flown?  
20 A: It was expected and assumed that people would use  
21 all of their certificates. That didn't always  
22 happen, and people knew that if they didn't use  
23 it, that that would, it had a time limitation and  
24 that they would lose the ability to do that, and,  
25 and which caused some, you know, conflict because

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1 A: That would've been, Aaron Goerlich was our  
2 Department of Transportation attorney, and he,  
3 he, he -- the Department of Transportation put  
4 that in writing, that we had approval for that.  
5 I think that's the way it happened.

6 Q: Do you recall seeing a writing from the  
7 Department of Transportation indicating that?

8 A: There was a letter, yes. I don't -- Whether or  
9 not I saw the letter, I know there was ---

10 Q: That's my question.

11 A: --- a letter.

12 Q: Do you recall seeing the letter?

13 A: I don't know that I saw the letter, but I knew  
14 that there was a letter because we talked about  
15 it.

16 Q: Was your understanding primarily from  
17 communications of Mr. Goerlich?

18 A: Well, yeah. He would've been the person who  
19 would have, he would've been the, the attorney  
20 who, who, who got that approval or the letter or  
21 permission to, however you want to describe it.

22 BY MS. MURPHY;

23 Q: How did Family Ties' fares compare to regular  
24 ticket prices?

25 A: How did they compare to regular? I think it was

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1 a good deal.  
2 Q: So my ---  
3 A: People, a lot of people loved it.  
4 Q: My understanding is that the Family Ties, the  
5 cost for a ticket was about 140 to \$150. Is that  
6 accurate?  
7 A: Uh-huh (affirmative response).  
8 Q: I'm sorry. You'll need to say yes or no.  
9 A: Yes, ma'am.  
10 Q: Thank you. And that was about the same price  
11 people would pay for a non-Family Ties ticket?  
12 A: Well, I think it would've been, it would've been,  
13 across the board, it was probably lower than the  
14 competition, although the competition had sales,  
15 too.  
16 Q: I'm sorry.. I don't understand that. Are you  
17 saying that on average, because I understand that  
18 there are less expensive flights and more  
19 expensive flights, but are you saying, on  
20 average, your Family Ties rate was a little bit  
21 less than the rate Direct Air would charge a non-  
22 Family Ties ticket?  
23 A: Was lower than -- Well, yeah, it would have been  
24 lower because, because our lowest fare was  
25 typically \$99, and there was only, you know, so

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# EXHIBIT 13

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF MASSACHUSETTS  
CENTRAL DIVISION

Southern Sky Air & Tours, )	Case No.: 12-40944-MSH
LLC, d/b/a Direct Air, )	Chapter 7
)	
Debtor, )	
_____ )	

**THE RULE 2004 EXAMINATION OF  
MARY BALDWIN**

Thursday, November 7, 2013  
10:24 a.m. – 4:56 p.m.

The Rule 2004 Examination of MARY BALDWIN, taken on behalf of the Joseph H. Baldiga, Chapter 7 Trustee, at the law offices of Boyd Goldfinch Law Firm, LLC, located at 11019 Tournament Boulevard, Murrells Inlet, South Carolina, on Thursday, November 7, 2013.

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1 Q: And I would note that the third line item from  
2 the top says Sky King?  
3 A: Yes.  
4 Q: Or Sky King wire?  
5 A: Right, that's the airline.  
6 Q: And that's what you're referring to ---  
7 A: Exactly.  
8 Q: --- if you needed to check to make sure that a  
9 vendor had gotten paid, that's how the  
10 information would show up on this ---  
11 A: Exactly. Because sometimes they would call and  
12 I, the calls would get routed to me and they  
13 would say "We didn't get our wire," and I'd say  
14 "Well, give me a minute, let me check." And I  
15 would go to Kay and see if, you know, their's  
16 were there.  
17 Q: And that is the only use you made of the daily  
18 financial report ---  
19 A: That's correct.  
20 Q: --- from Valley National Bank?  
21 A: That's correct.  
22 Q: Are you aware at some time there became a  
23 shortfall in the escrow account?  
24 A: I heard them talking about a shortfall. Most of  
25 the time that information, they would never

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1 reveal what the shortfall really was until -- I  
2 only knew of the shortfall when we were closing.  
3 We -- It was a shock to all of the employees. We  
4 had no knowledge of, you know, that was kept  
5 separate.

6 Q: We've had the opportunity to speak to several of  
7 the founding members, and they've described that  
8 the company was run, prior to the acquisition by  
9 Avondale, that the founders ran the company  
10 essentially by committee, and they all joined in  
11 and made decisions together. Do agree with that  
12 characterization?

13 A: I would have to say no. We had partners who had  
14 areas that they covered. Kay and Judy was  
15 operations, escrow and reservations management.  
16 Marshall was marketing and systems management,  
17 then Ed was mostly marketing. Now, they met on a  
18 regular basis, but employees were not privy to  
19 those meetings. The only time employees were  
20 privy to those meetings was when it involved,  
21 say, somebody coming in wanting to offer  
22 something to the employees or if a new airline  
23 came in and they wanted to, you know, wanted to  
24 work with Direct Air, sometimes the employees  
25 would be involved in, like a luncheon kind of

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- 1 A: Uh-huh (affirmative response).
- 2 Q: How often was he down in Myrtle Beach prior to
- 3 the acquisition?
- 4 A: Probably on a monthly basis, sometimes bimonthly.
- 5 It depend on, you know, really what was going on.
- 6 Sometimes he'd have to come and stay, you know, a
- 7 week, two weeks, but, you know, he was always
- 8 available through, via email and telephone so --
- 9 but he down quite often.
- 10 Q: So if he wasn't physically here, he was still
- 11 present and able to give direction electronically
- 12 and remotely?
- 13 A: Right.
- 14 Q: And he in fact did do those things?
- 15 A: Yes. I, I would not make any decisions without
- 16 consulting with him, or if I ran into a problem
- 17 which was, you know, quite often, I would call
- 18 him, you know, and tell him what that problem was
- 19 because that was the sane part of it. He was the
- 20 sane part of it.
- 21 Q: Sane?
- 22 A: (Indicates affirmatively.)
- 23 Q: Are you aware of documentation of Mr. Keilman's
- 24 additional money to Direct Air that were
- 25 documentation of loans?

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